

<b>STATE OF MONTANA</b> <b>COMPLIANCE SUPPLEMENT FOR AUDITS OF</b> <b>LOCAL GOVERNMENT ENTITIES</b>	REF: REV-1
	PAGE: 1 of 4
<b>PROGRAM/SUBJECT: Oil and Natural Gas Production Tax Distribution</b>	

**FEDERAL GRANTOR AGENCY:** Not Applicable – State-funded program

**TYPES OF RECIPIENTS:** County and school district taxing units

**INFORMATION CONTACT:** Montana Department of Revenue

Names & Phone Numbers:

Dan McLeod (406) 444-6921

Van Charlton (406) 444-3584

Keith Broussard (406) 444-3585

**I. PROGRAM OBJECTIVES:**

The objective of the Oil and Natural Gas Production Tax Distribution is to allocate a fixed percentage of oil and gas production taxes (O&G taxes) collected in each county to that county. This legislation, applicable retroactively to O&G taxes derived from production occurring after December 31, 2002, substantially revises the method for distributing O&G taxes.

**II. PROGRAM PROCEDURES:**

O&G taxes are paid to the Department of Revenue in quarterly installments. The Department of Revenue determines the taxes paid on production in each county and school district taxing unit, and remits a specified percentage of those taxes on a quarterly basis to the counties. County treasurers in turn distribute specified percentages to the countywide elementary and high school retirement funds, countywide transportation funds, and eligible school districts. Monies remaining after this distribution are retained by the counties.

**III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**1. Compliance Requirement:**

- The Department of Revenue shall remit O&G taxes to the county treasurers on a quarterly basis, as follows:
  - on or before August 1 of each year the department shall remit O&G tax payments received for the calendar quarter ending March 31 of the current year,
  - on or before November 1 of each year the department shall remit O&G tax payments received for the calendar quarter ending June 30 of the current year,
  - on or before February 1 of each year the department shall remit O&G tax payments received for the calendar quarter ending September 30 of the previous year, and
  - on or before May 1 of each year the department shall remit O&G tax payments received for the calendar quarter ending December 31 of the previous year.

REVISION DATE: 4/30/2008

<b>PROGRAM/SUBJECT:     Oil and Natural Gas                                  Production Tax Distribution</b>	REF: REV-1
	PAGE: 2 of 4

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### Suggested Audit Procedure:

- Verify that the county received all of its quarterly distributions of O&G taxes, according to the schedule above.

#### 2. Compliance Requirements:

- Each county treasurer shall distribute O&G taxes to the countywide elementary and high school retirement funds, countywide transportation funds, and eligible school districts according to the following schedule. (Section 15-36-332(2)(a), MCA) The county treasurer shall distribute O&G taxes to schools districts in each county referred to in the schedule below based on the criteria specified in Section 15-36-332(4)(b) through (d), MCA. The Department of Revenue calculates the distribution to each school district for each county based on the above statutory criteria. The county's total distribution and an itemization for each element of the distribution, in dollar amounts, are provided by the Department of Revenue to the county treasurer along with the quarterly remittance.

	Elementary Retirement	High School Retirement	Countywide Transportation	School Districts
Big Horn	14.81%	10.36%	2.99%	26.99%
Blaine	5.86%	2.31%	2.71%	24.73%
Carbon	3.6%	6.62%	1.31%	49.18%
Chouteau	8.1%	4.32%	3.11%	23.79%
Custer	6.9%	3.4%	1.19%	31.25%
Daniels	0	7.77%	3.92%	48.48%
Dawson	5.53%	2.5%	1.11%	35.6%
Fallon	0	7.63%	1.24%	42.58%
Fergus	7.88%	4.84%	2.08%	53.25%
Garfield	4.04%	3.13%	5.29%	26.19%
Glacier	11.2%	4.87%	3.01%	46.11%
Golden Vllly	0	11.52%	2.77%	54.65%
Hill	6.7%	4.07%	1.59%	49.87%
Liberty	4.9%	4.56%	1.15%	35.22%
McCone	4.18%	3.19%	2.58%	43.21%
Musselshell	5.98%	4.07%	3.53%	32.17%
Petroleum	0	11.92%	4.59%	55.48%
Phillips	0.43%	6.6%	1.08%	41.29%
Pondera	6.96%	5.06%	1.94%	45.17%
Powder Rvr	3.96%	2.97%	4.57%	22.25%
Prairie	0	8.88%	1.63%	36.9%
Richland	4.1%	3.92%	2.26%	43.77%
Roosevelt	9.93%	7.37%	2.74%	40.94%

<b>PROGRAM/SUBJECT:     Oil and Natural Gas                                  Production Tax Distribution</b>	REF: REV-1
	PAGE: 3 of 4

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 2. Compliance Requirements - continued:

Rosebud	3.87%	2.24%	1.05%	72.97%
Sheridan	0	3.39%	2.22%	47.63%
Stillwater	6.87%	4.86%	1.63%	41.16%
Sweet Grass	6.12%	6.5%	2.4%	37.22%
Teton	6.88%	8.19%	3.8%	29.43%
Toole	2.78%	4.78%	1.3%	43.56%
Valley	2.26%	12.61%	4.63%	41.11%
Wibaux	0	4.1%	0.77%	31.46%
Yellowstone	7.98%	4.56%	1.07%	52.77%
All other counties	3.81%	7.84%	1.81%	41.04%

- In addition to the above, the Custer County Treasurer shall distribute 9.8% of the Custer County share to the countywide community college district in Custer County, and the Dawson County Treasurer shall distribute 14.5% of the Dawson County share to the countywide community college district in Dawson County. (Section 15-36-332(2)(b), MCA)

#### Suggested Audit Procedure:

- For selected quarterly distributions from the State, obtain the letter from the Department of Revenue accompanying the quarterly remittance. Verify that distributions to the countywide school funds, eligible school districts, and community colleges (if applicable) agree to the distributions provided by the Department of Revenue.

#### 3. Compliance Requirements:

- The county's portion of the O&G taxes remaining after the above distributions must be used for the exclusive use and benefit of the county, including districts within the county established by the county. (Section 15-36-332(3), MCA)
- The county's portion of the O&G tax monies remaining after the above distributions should be recorded as revenue (BARS Revenue Code #335065 – Oil & Gas Production Tax) in Fund No. 2899 – Oil & Natural Gas Production Taxes Fund. Local governments are required to conform to the accounting standards prescribed by the Department of Administration. (Section 2-7-504, MCA)

#### Suggested Audit Procedures:

- Verify that the county's portion of these O&G tax distributions has been recorded as revenue in the county's records and deposited in the county fund as specified above.

<b>PROGRAM/SUBJECT:     Oil and Natural Gas                                  Production Tax Distribution</b>	REF: REV-1
	PAGE: 4 of 4

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### **Suggested Audit Procedures - continued:**

- Review O&G tax expenditures from Fund No. 2899 to determine that they were for the exclusive use and benefit of the county, including districts within the county established by the county.

#### **4. Compliance Requirements: (School Districts)**

- O&G taxes calculated for each school district, as discussed above, must be distributed to each school district in the relative proportion of the mill levy for each fund. (Section 15-36-332(5)(a), MCA)
- The August and November distributions of these taxes should be distributed on the previous year's levy, and the February and May distributions should be distributed on the current year's levy. For example, payments received on or before August 1 and November 1, 2005 would be distributed on the 2004 tax year levy established in the fall of 2004. Payments received on or before February 1 and May 1, 2006 would be distributed on the 2005 tax year levy established in the fall of 2005. (This distribution determined after consultation with the Code Commissioner for the Legislative Fiscal Division.)
- If a distribution based on the mill levy exceeds the total budget for a school district fund, the board of trustees of the school district may reallocate the excess to any budgeted fund of the school district. (Section 15-36-332(5)(b), MCA)

#### **Suggested Audit Procedures:**

- Review the distribution of O&G taxes to the various funds of the school district to ensure that this revenue is recorded in levied funds only, and that the distribution is in relative proportion of the appropriate mill levy for each fund, as described above.
- If this distribution to any fund exceeds the total budget for the fund, and if the board of trustees elects to reallocate the excess, verify that the excess is reallocated to only another budgeted fund or funds.